

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF REIDLAND WATER AND)
SEWER DISTRICT FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AND AUTHORI-) CASE NO. 92-241
ZATION TO BORROW FUNDS AND FOR AUTHORITY)
TO ADJUST RATES)

O R D E R

On June 22, 1992, Reidland Water and Sewer District ("Reidland Sewer") filed an application for a Certificate of Public Convenience and Necessity to construct a \$1,889,950 Wastewater Sewer Rehabilitation and Expansion Project, for approval for its plan of financing for this project, for adjustments to its sewer user rates, and approval of nonrecurring charges. The proposed rates would generate approximately \$331,220 in annual revenues, an increase of 163 percent over test-year revenues from sewer operations of \$125,714. Project funding includes a \$1,867,450 loan from the Kentucky Infrastructure Authority ("KIA") and \$22,500 from Reidland Sewer funds. The loan will be for a 20-year period at an interest rate of 3.7 percent. An annual administrative fee of .2 percent of the loan amount, or \$3,734, will also be required.

The proposed construction consists of 600 linear feet of 24-inch pipeline, 3,510 linear feet of 18-inch pipeline, 12,800 linear feet of 12-inch pipeline, 7,095 linear feet of 8-inch pipeline, 2,840 linear feet of 6-inch pipeline, 5,185 linear feet of 4-inch pipeline, manholes, lift stations and related appurtenances. Reidland Sewer proposes to replace some of the existing gravity

sewer line and extend lines to serve the Fieldmont and Green Acres areas. This should allow Reidland Sewer to serve approximately 166 new customers. Drawings for the proposed improvements prepared by Florence and Hutcheson, Inc. of Paducah, Kentucky ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

The Commission has examined Reidland Sewer's test-period operations and proposed adjustments and finds that the proposed revenue increase of \$205,506 should be allowed. The rates proposed by Reidland Sewer appear fair, just, and reasonable and, as designed, will generate the revenue requirement found reasonable herein.

More problematic for the Commission is Reidland Sewer's request to establish two separate tap-on charges for customers located in the Fieldmont and Green Acres areas. Although Reidland Sewer currently has a \$350 tap-on charge approved for existing customers of the District, it seeks to establish a \$1500 tap-on charge for those customers in the Green Acres - Fieldmont area who have private sewage disposal systems and \$2500 for those who do not. These charges are not part of the user ordinance passed by Reidland Sewer as a precondition of receiving KIA funds. Cost justification sufficient to support establishing these two charges has not been provided and therefore the tap-on charges proposed cannot be approved at this time.

Reidland Sewer has also proposed a development fee of \$.50/per thousand gallons/per day flow as a nonrecurring charge for

commercial and industrial users with a minimum charge of \$5,000. Reidland Sewer proposes this charge to recover from commercial and industrial customers compensation for additional demands placed on the system as those customers come on line. There is insufficient cost support provided to support this charge and its revenue impact on Reidland Sewer cannot be determined. Therefore, it cannot be approved.

Although the Commission is denying approval of the tap-on charges and development fees in this case, Reidland Sewer is not precluded from refileing to seek approval of the charges pursuant to 807 KAR 5:011, Section 10.

Reidland Sewer requested the Commission shorten the notice period to 20 days upon its showing of good cause as permitted by KRS 278.190. In support of its request, Reidland Sewer represents that its KIA loan commitment will expire unless approval is granted expeditiously. Reidland Sewer's bids have already expired and the contractor has agreed to hold those bids open until July 15, 1992 and should approval not be granted prior to that date, new bids may have to be taken. Based upon the foregoing representations, and the fact that the Commission has received no requests to date for intervention from Reidland Sewer's customers, the Commission will grant the request.

After consideration of the record and being otherwise sufficiently advised, the Commission finds that:

1. Public convenience and necessity require that the construction proposed be performed and that a Certificate of Public Convenience and Necessity be granted.

2. The proposed construction includes 600 linear feet of 24-inch pipeline, 3,510 linear feet of 18-inch pipeline, 12,800 linear feet of 12-inch pipeline, 7,095 linear feet of 8-inch pipeline, 2,840 linear feet of 6-inch pipeline, 5,185 linear feet of 4-inch pipeline, manholes, lift stations and miscellaneous appurtenances.

3. Any deviations from the construction approved should be undertaken only with the prior approval of the Commission.

4. Reidland Sewer should obtain approval from the Commission prior to performing any additional construction not expressly certificated by this Order.

5. Reidland Sewer should furnish duly verified documentation of the total costs of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Sewage Utilities prescribed by the Commission.

6. Reidland Sewer's contract with its Engineer should require the provision of construction inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering to ensure that the construction work is done in accordance with the contract plans and

specifications and in conformance with the best practices of the construction trades involved in the project.

7. Reidland Sewer should require the Engineer to furnish a copy of the "as-built" drawings and signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

8. The financing plan proposed by Reidland Sewer is for lawful objects within its corporate purpose, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform these services, and is reasonably necessary and appropriate for such purpose. It should therefore be approved.

9. The rates in Appendix A, attached hereto and incorporated herein, are fair, just, and reasonable rates for services provided by Reidland Sewer and will produce annual revenues from sewer operations of \$331,220. These rates will allow Reidland Sewer sufficient revenues to meet its operating expenses, service its debt, and provide for future equity growth. These rates should be effective upon 20 days notice to the Commission.

10. Reidland Sewer's proposed tap-on charges and development fee for commercial and industrial customers have not been adequately supported by cost justification and should, therefore, not be approved.

IT IS THEREFORE ORDERED that:

1. Reidland Sewer be and it hereby is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction as set forth in the plans and specifications of record herein.

2. Reidland Sewer shall comply with all matters set out in Findings 3 through 7 as if the same were individually so ordered.

3. Reidland Sewer's financing plan consisting of a loan from KIA not to exceed \$1,867,450 over a term of 20 years at an interest rate of 3.7 percent per annum and \$22,500 in Reidland Sewer funds be and it hereby is approved. The financing herein approved shall be used only for the lawful purposes specified in Reidland Sewer's application.

4. Within 60 days of the date of this Order, Reidland Sewer shall file with the Commission the final loan documents evidencing the terms and conditions of its loan from KIA.

5. The tap-on charges and development fee proposed by Reidland Sewer are denied without prejudice.

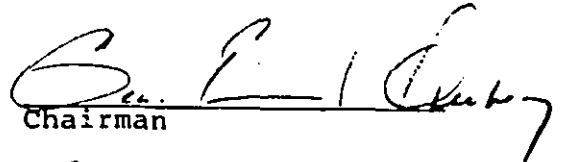
6. The rates in Appendix A are the fair, just, and reasonable rates to be charged by Reidland Sewer for sewer service and are approved for services rendered by Reidland Sewer on and after the date of this Order.

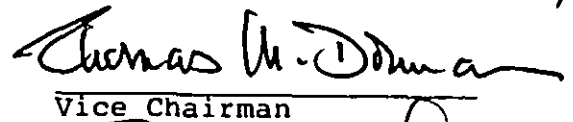
7. Within 30 days of the date of this Order, Reidland Sewer shall file with the Commission its revised tariffs setting out the rates approved herein.

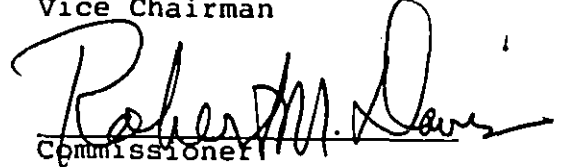
Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 13th day of July, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director, Acting

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 92-241 DATED 7/13/92

The following rates and charges are prescribed for the customers in the area served by Reidland Water and Sewer District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Sewer Rate Schedule (Based on Water Consumption)

Monthly Usage

First 3,000 gallons
Over 3,000 gallons

Monthly Rates

\$8.50 Minimum Bill
2.50 per 1,000 gallons

Sprinkler Service

During the months of May through October, the sewer charge is based on the average sewer charge for November through April multiplied by 1.2.